

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 EB-07 ITC-01 SP-02 USIA-06 AID-05
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 OES-06 AGRE-00 /084 W
-----121004Z 015412 /12

P R 120902Z JAN 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 1472

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 0286

E.O. 11652: GDS

TAGS: EFIS ETRD KS

SUBJ: CONCERN OVER PERCEIVED RISING TIDE OF US PROTECTIONISM

REF: (A) 76 SEOUL 9561 (NOTAL), (B) 76 SEOUL 10099 (NOTAL)

SUMMARY: THE ANNOUNCEMENT BY THE INTERNATIONAL TRADE COMMISSION THAT IT HAD RECOMMENDED A TARIFF RATE QUOTA FOR NON-RUBBER FOOTWEAR HAS BROUGHT THE PREDICTABLE AND NOT UNJUSTIFIED OUTCRY THAT THE U.S. ACTION WILL BE EXTREMELY INJURIOUS TO KOREA. AT THE SAME TIME, IT HAS INCREASED KOREAN CONCERN THAT THE U.S. IS MOVING TOWARD GREATER PROTECTIONISM--THE KOREANS NOW CITE EIGHT PRODUCTS WHICH THEY FEAR FACE QUANTITATIVE CONTROLS. TAKEN AS A WHOLE WITH THE STILL PENDING FISHERIES QUESTIONS AND OUR INCREASING PRESSURES ON THEM FOR IMPORT LIBERALIZATION, IT IS POSSIBLE THAT WE COULD MOVE, UNLESS CARE IS EXERCISED, TOWARD A CONFRONTATION WITH THE ROK IN OUR ECONOMIC/COMMERCIAL RELATIONSHIPS. END SUMMARY.

1. THE JANUARY 6 DECISION BY THE ITC TO RECOMMEND A TARIFF RATE QUOTA FOR NON-RUBBER FOOTWEAR IS BEING PRESENTED IN THE KOREAN PRESS AS A HARD BLOW WHICH COULD WELL REDUCE KOREAN FOOTWEAR
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EXPORTS SIGNIFICANTLY. POINTING TO PROJECTIONS FOR 1977 OF \$500 MILLION IN FOOTWEAR EXPORTS, THE NEWSPAPER ACCOUNTS CITED MINISTRY OF COMMERCE AND INDUSTRY SOURCES AS STATING THAT OF THE TOTAL IT WAS ANTICIPATED THAT AT LEAST \$350 MILLION WERE DESTINED TO THE UNITED STATES. A TARIFF QUOTA OF THE SIZE PROPOSED FOR KOREA WOULD, HOWEVER, REDUCE EXPORTS TO THE U.S. BY AS MUCH AS \$100 MILLION.

2. ACCORDING TO EMBASSY CALCULATIONS, BASED ON THE NUMBERS SUPPLIED BY MCI, IT WOULD APPEAR THAT SUCH AN ESTIMATE HAS A BASIS IN FACT. MCI CLAIMS EXPORTS IN 1976 TO THE U.S. OF 50 MILLION PAIRS OF SHOES VALUED AT \$233 MILLION SIX MILLION PAIRS OF WHICH WERE "RUBBER SHOES". IF ONE ACCEPTS THE MCI ESTIMATE OF \$4 A PAIR FOR NON-RUBBER SHOES AS THE FOB EXPORT PRICE, AND FURTHER ASSUMES EXPORTS IN THE SAME PROPORTION OF RUBBER TO NON-RUBBER IN 1977 AS IN 1976, OUR ESTIMATE IS THAT THE QUOTA COULD AFFECT A TOTAL OF 44 MILLION PAIRS OF SHOES.

3. IT IS HIGHLY UNLIKELY THAT THAT MANY SHOES, PARTICULARLY THE TYPE INVOLVED, COULD BE SHIFTED TO OTHER MARKETS; THUS, ALTHOUGH THE KOREANS HOPE THEY CAN RECOUP SOME OF THE LOSSES BY SHIFTING TO PRODUCTION OF HIGHER PRICED PRODUCTS, IT IS NOT AN EXAGGERATION TO ANTICIPATE LOSSES THAT COULD TOTAL AS MUCH AS \$100-\$125 MILLION. NEEDLESS TO SAY, THE LOSS OF UP TO A QUARTER OF ANTICIPATED EXPORTS WILL HAVE REPERCUSSIONS IN THE KOREAN SHOE INDUSTRY AND NEGATIVE FEEDBACK ON THE ECONOMY AS A WHOLE.

4. THE ACTION OF THE ITC HAS AGAIN HEIGHTENED EXPECTATIONS AMONG KOREAN TRADE OFFICIALS HERE THAT THE U.S. WILL EVENTUALLY IMPOSE A SERIES OF RESTRICTIONS AGAINST KOREAN EXPORTS. PRODUCTS MENTIONED IN RECENT PRESS ACCOUNTS, WHICH KOREANS FEAR WILL BE RESTRICTED BY USG ACTIONS, ARE HANDBAGS, LEATHER GARMENTS, BLACK AND WHITE AND COLOR TV SETS, ELECTRONIC WATCHES, FISHING NET YARN, CANNED MUSHROOMS, SEASONINGS, AND SACCHARINE. IN ADDITION, THE KOREANS CLAIM THAT THE FDA IS PROHIBITING GINSENG AND SEDGE IMPORTS TO THE U.S. THROUGH SEPTEMBER EXPORTS OF THESE PRODUCTS, CONFIDENTIAL

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EXCEPT GINSENG AND SEDGE, TOTALLED \$165.6 MILLION.

5. IN THE MEANTIME, THE KOREANS CONTINUE TO EXPRESS FEAR THAT THEY ARE ABOUT TO SUFFER LOSS OF THEIR ACCESS TO FISHING AREAS FOR POLLACK (REF. B). IN ADDITION TO THE PROVISIONS OF THE GIFA, WHICH THEY FEEL WILL DO INJURY TO THEIR DEEPSEA FISHING FLEET UNLESS THEY GET A GENEROUS QUOTA, THE KOREANS FACE A LOSS OF ACCESS TO OTHER FISHING AREAS AS A RESULT OF RUSSIAN ACTION IN EXTENDING THEIR TERRITORIAL WATERS TO 200 MILES. TO THE KOREANS AN IMMINENT THREAT OF RUINATION OF THE FISHING INDUSTRY LOOMS UNLESS THEY CAN OBTAIN A GENEROUS QUOTA FROM THE USG. WHILE THESE CONCERNS MAY TO SOME DEGREE BE IMAGINED, THEY ARE NOT MITIGATED BY OTHER USG MOVES WHICH RESTRICT KOREAN ACCESS TO THE US MARKET.

6. ALL OF THIS, OF COURSE, COMES AT A TIME WHEN WE ARE TRYING TO GET THE KOREANS TO BEGIN TO LOOK SERIOUSLY AT IMPORT LIBERALIZATION (REF. A). WITH THE FAVORABLE BOP RESULTS OF 1976, THE TIME SEEMS PROPITIOUS TO FOCUS ON KOREAN TRADE RESTRICTIONS. IF, HOWEVER, WE ARE TO BEGIN TO ADOPT SIMILAR POLICIES AT OUR END,

WE WILL MEET WITH LITTLE SYMPATHY AND LESS SUCCESS HERE. OUR CONCERN IS THAT, IF THIS SEEMINGLY INEXORABLE BUILDUP OF TRADE WALLS CONTINUES, WE COULD FIND OURSELVES IN A FULL-BLOWN CONFRONTATION WITH THE ROKG ON ISSUES THAT DIRECTLY AFFECT THE LIVELIHOOD OF THE WORKING POPULACE.

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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 0286

7. AS AN EXAMPLE OF THE CONCERN BEING EXPRESSED, DPM NAM AND MINISTER OF COMMERCE AND INDUSTRY CHANG RAISED THE MATTER OF INCREASED PROTECTIONISM, ESPECIALLY FOOTWEAR, WITH REPRESENTATIVES HERE DISCUSSING THE INTERNATIONAL INDUSTRIAL INSTITUTE, AND THE MINISTER OF TRANSPORTATION, IN A CONVERSATION WITH ECONOMIC COUNSELOR ABOUT TOTALLY UNRELATED MATTERS, ALSO NOTED THE ADVERSE EFFECTS OF INCREASING U.S. TRADE BARRIERS. MINISTER CHANG WAS PARTICULARLY EXERCISED AT THE UNFAIRNESS OF USING 1974 EXPORTS AS THE QUOTA BASE. BY HIS FIGURES, SINCE PUBLISHED IN ALL NEWSPAPERS, KOREA HAD EXPORTED \$250 MILLION IN NON-RUBBER FOOTWEAR TO THE U.S. IN 1976 AND THE PROPOSED QUOTA WOULD PERMIT NO MORE THAN \$30 MILLION IN 1977. WHILE HIS FIGURES ARE HIGHER THAN OURS, THEY MAKE HIS POINT AND UNDERSCORE THE SERIOUSNESS WITH WHICH THE ROKG IS REACTING. NEEDLESS TO SAY, PRESS REACTION, WHICH WILL BE REPORTED SEPARATELY, IS EVEN MORE ALARMIST AND EMOTIONALLY-TAINTED.
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